

**EMBARGOED UNTIL DELIVERY**  
**June 20, 2001**

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**TESTIMONY OF DONALD V. HAMMOND FISCAL ASSISTANT SECRETARY  
U.S. DEPARTMENT OF THE TREASURY BEFORE THE  
HOUSE COMMITTEE ON BANKING AND FINANCIAL SERVICES  
SUBCOMMITTEE ON GENERAL OVERSIGHT AND INVESTIGATIONS**

***INTRODUCTION***

Chairwoman Kelly and Members of the Subcommittee, thank you for the opportunity to appear before you today to discuss Treasury's efforts to implement the electronic funds transfer (EFT) requirement of the Debt Collection Improvement Act of 1996 (the DCIA). The DCIA requires the Federal government to issue most payments, except tax refunds, via EFT after January 1, 1999 and gives the Secretary of the Treasury the authority to prescribe regulations and to grant waivers from the requirement to receive payments electronically. The DCIA also directs Treasury to ensure that any recipients who are required to receive payment electronically have access to an account at a financial institution at a reasonable cost and with the same consumer protections as other account holders at the same financial institution.

We believe the program thus far has been very successful resulting in approximately eighty percent of all Federal payments currently being made electronically and generating considerable efficiencies for the Federal government, financial institutions and payment recipients. In fact, the reduction in the number of check payments alone since the end of FY'95 has saved the Federal

government almost \$250 million and will generate recurring savings each year.

We expect to expand on these accomplishments by increasing our percentage of electronic payments in the future.

I commend the Subcommittee for its continued interest in and support of increasing the government's usage of electronic payments in a way that balances the interests of our payment recipients and the cost of government operations. Treasury intends to continue with the implementation of this important initiative in the same manner going forward.

## ***BACKGROUND***

Treasury has been making electronic payments since the 1970s when it began an EFT program known as Direct Deposit, an electronic payment method used largely by individuals receiving benefit, salary, and other Federal payments. In the intervening years, EFT payments have expanded to include electronic wire transfers and card and other emerging technology electronic payments. In the fiscal year preceding the DCIA (FY'95), approximately half of all Treasury disbursed Federal payments were made electronically.

In April 1996, the DCIA was enacted into law. Under the DCIA, agencies were required to convert from paper-based payment methods to EFT in two phases in accordance with regulations to be issued by the Treasury. These regulations were issued on July 26, 1996 and September 25, 1998. During the first phase, recipients who became eligible to receive Federal payments on or after July 26, 1996 were required to receive such payments electronically subject to waivers under the Act. The July 26, 1996 interim rule, which was in effect through January 1, 1999, implemented this requirement.

The second phase began on January 2, 1999. Beginning on that date, all Federal payments,

except payments under the Internal Revenue Code, are to be made by EFT unless eligible for a regulatory waiver.

On September 25, 1998, Treasury published in the Federal Register a final rule [31 CFR Part 208 (EFT rule)] prescribing the implementation of the program effective January 2, 1999. The EFT rule was issued after consideration of testimony received at four (4) public hearings and review of 212 comment letters received from financial institutions, consumer and community based-organizations, Federal payment recipients, and other key stakeholders.

The EFT rule establishes the circumstances under which waivers are available, provides certain requirements for accounts to which Federal payments may be sent electronically, and sets forth the responsibilities of Federal agencies and recipients under the regulation. The rule also provides that any individual who receives a Federal benefit, wage, salary, or retirement payment is eligible to open a low-cost account designed by Treasury, called the Electronic Transfer Account (ETA), at a financial institution that offers such accounts. I will be discussing the ETA in more detail later in my testimony.

In developing the EFT rule, Treasury followed four principles: (1) the interests of recipients should be of paramount importance; (2) Treasury's policies should maximize private sector competition for the business of handling Federal payments in order to promote the greatest possible convenience, flexibility, efficiency, and security; (3) recipients, especially those having special needs, should not be disadvantaged by the transition to EFT; and (4) recipients without accounts at financial institutions should be brought into the mainstream of the financial system to the greatest extent possible.

The EFT rule emphasizes recipient choice through an accommodative waiver policy formulated for the purpose of minimizing hardships to Federal payment recipients. Any individual Federal payment recipient may invoke a hardship waiver and continue receiving a check. Payment recipients assess their own eligibility for a hardship waiver. Moreover, agencies are prohibited from withholding, suspending,

or delaying a payment if a recipient does not designate a financial institution into which electronic payment may be sent and does not actively invoke a hardship waiver. Treasury is confident that this balanced approach supports the goals of the program as more and more individuals become familiar with EFT over time.

Indeed, the widespread use of EFT by Social Security recipients and other Federal benefit recipients indicates broad acceptance of EFT by the public.

## ***EFT99 RESULTS TO DATE***

### ***Electronic Funds Transfers (EFT)***

Treasury makes approximately 85% of all Federal government payments, with the remaining payments being made primarily by the Department of Defense. As a result of the DCIA and Treasury's and other agencies' education and outreach programs, the government has made tremendous progress in the conversion of check payments to EFT among Treasury and non-Treasury disbursed agencies. In FY 2000, the Federal government issued over one billion payments on behalf of civilian and defense agencies, including benefit, salary and vendor payments as well as tax refunds, grants, loans, and other payments. Seventy-nine percent (79%) of those payments were electronic payments.

Federal payments are being made electronically in remarkable numbers, as evidenced by the following:

- X Today, nearly eight out of every ten Social Security (SSA) and Veterans Administration benefit payments, and 98 percent of all Federal salary payments are made electronically.

- X Newly eligible SSA beneficiaries are enrolling in EFT at a rate of approximately 85 percent.
- X The number of Federal vendor payments made electronically has grown to 82 percent from only 10 percent for FY 1995.
- X Half of all Supplemental Security Income payments are currently made electronically compared to 24 percent for FY1995. These payments are issued primarily to a population that has traditionally been unbanked.
- X Even the percentage of Federal tax refund payments made electronically, payments not required by the DCIA to be made electronically, have more than tripled since the beginning of the program with 29 percent being made electronically in FY2000, compared to eight percent for FY 1995.

	FY 1995	FY 2001 through April 2001
Treasury Disbursed Payments		
Salary	90%	98%
Benefit Payments	54%	75%
Vendor Payments	10%	59%
Miscellaneous Payments	30%	43%
Total Treasury-Disbursed Payments, Excluding Tax Payments	55%	76%
Tax Payments	8%	29% (FY'00actual)

DOD Disbursed Payments	86%	96%
Total Government-wide Payments	63%	80%

We attribute our success to our public education effort, our efforts to publicize and explain the requirements of the DCIA and Treasury rules to key stakeholders, and our efforts to assist agencies operationally in converting more payments to EFT.

### ***Electronic Transfer Account (ETA)***

The most complex and challenging task that has confronted us in increasing the number of EFT payments is how to meet the needs of the millions Federal payment recipients who do not have an account at a financial institution. Despite our waiver policy, in keeping with the DCIA's intent for access to a reasonable cost account, Treasury designed the low cost Electronic Transfer Account, or the ETA. The ETA is being voluntarily offered by federally insured financial institutions that choose to offer the account subject to the specifications prescribed by Treasury.

Treasury is committed to providing opportunities for those individuals without an account at a financial institution, thus allowing them to join the financial services mainstream and receive the benefits of electronic payment. We consider the ETA to be an important potential stepping stone to full service banking relationships while providing a safe, reliable, and low-cost alternative to recipients who receive federal benefits.

We anticipate that we will have a national presence of over 600 ETA providers with more than

16,000 locations by the end of this year. Some of the larger certified ETA provider banks, including Firststar, FleetBoston, Banco Popular, and Fifth Third Bank, have rolled out the ETA in all of their branches. Well Fargo has rolled out the ETA in all branches except those in California. Bank One will complete its roll out by October of this year. Also by October, Bank of America will offer the ETA at all of its 4,400 locations in 21 states and the District of Columbia. Firststar, recently merged with US Bank Corp, anticipates it will begin offering the ETA in its US Bank branches by the end of the year.

As of April 2001, Federal payment recipients have opened 10,913 ETAs. We project that the number of ETAs opened will gradually increase over the next few months with more substantial increases next year for the following reasons:

X As I mentioned a moment ago, several large financial institutions with multiple locations will be coming on board over the next six months, thus increasing coverage across the country and in the ten top check volume states.

X Awareness of the availability and benefits of the ETA will continue to grow among Federal benefit check recipients as a result of the distribution of approximately 10 million ETA check inserts which promote Direct Deposit and the ETA as alternatives to receiving checks. Additional ETA check inserts will be sent to recipients in locations where ETA providers begin offering the ETA.

X SSA sent direct mailings to approximately 1.8 million check recipients in nine states in November 2000 and April 2001. Another 850,000 check recipients in five additional states are scheduled to receive letters in June of this year. These letters promote both Direct Deposit and the ETA as alternatives to receiving checks. For example, the SSA direct mailings to one million recipients in Illinois, Iowa, and Kentucky in November 2000 resulted in about 35,000 new EFT enrollments

It is important to realize that Treasury's major objective is to increase EFT payments and to reduce the number of paper checks issued, and this objective is being achieved. The ETA is a means to achieve this end. Based on anecdotal feedback from some ETA providers, many individuals eligible to open an

ETA may be choosing instead to open a traditional account, and this is also a favorable result.

## ***PUBLIC EDUCATION***

In FY1997, Treasury began developing a comprehensive public awareness and education campaign to inform Federal payment recipients of their options under the EFT legislation and to promote the safety and reliability of EFT. The components of the campaign included development and distribution of printed materials, an educational video, public service advertising for radio, television, and print media, public relations activities, and a precedent setting grassroots community outreach initiative.

To expand EFT99 public awareness to a grassroots level, Treasury developed a regional network for its public education efforts. Treasury and contractor personnel, as well as five competitively selected community-based organizations, were established on-site in each of five regions of the country to work with local grassroots organizations on how to promote EFT as well as basic financial skills to their constituents. More than 1,400 local organization training sessions and 3,500 consumer sessions have been held throughout the grassroots campaign.

More than 12 million copies of various educational and marketing materials have been distributed throughout the campaign. One product, a financial literacy handbook, was developed in conjunction with the Financial Services Education Coalition that was formed as a result of the EFT99 initiative and distributed to thousands of communities across the nation. Representatives from community-based organizations, financial trade associations, and government agencies jointly developed this basic financial services training kit for local community educators to use at the grassroots level in educating Federal payment recipients on how to use mainstream banking services.



With regard to ETA specific activities, during the past 18 months we have worked to bring together both ETA providers and local community-based organizations to encourage collaborative marketing opportunities for reaching potential ETA customers.

Community outreach enables us to reach more individuals to promote the benefits and availability of the Direct Deposit and the ETA. In addition, Treasury has already mailed approximately 10 million ETA inserts with benefit checks to recipients in 28 states and Puerto Rico during the past 18 months. We anticipate that additional ETA check inserts will be sent to recipients in new states as more ETA provider branch locations begin to offer the ETA.

We also continue to meet regularly with SSA on EFT99 issues and worked with the agency to develop a letter to its benefit check recipients encouraging the use of Direct Deposit for those individuals who have bank accounts and the ETA for those who do not currently have or have been unable to obtain an account. As mentioned previously, more than 1.8 million letters have been sent to nine states, with additional mailings planned for later this year. We are encouraging SSA to continue its direct mail campaign to check recipients in additional states.

In addition, among other activities, Treasury is:

- X maintaining a website on the EFT requirement and the ETA program;
- X continuing ongoing efforts to promote Direct Deposit including providing materials to financial institutions, Federal agencies, and the public;
- X speaking and exhibiting at conferences and other forums on the benefits of Direct Deposit and the ETA;
- X publishing EFT/ETA newsletters for financial institutions, community organizations and other stakeholders; and

X continuing to assist certified and potential ETA providers in implementing the ETA program.

### ***PROGRAM COSTS AND SAVINGS***

Costs to implement EFT99, including portions of the ETA program, from FY1997 to FY2001 are approximately \$21 million. The public education campaign that I just described has cost approximately \$18 million over the past five years, with most of those funds used in the first three years of the campaign.

The remaining funds have been used to develop and publish Treasury's EFT rule and ETA account attributes; educate Federal agencies and other key stakeholders on the EFT rule and ETA features; and work with and assist financial institutions offering the ETA.

Specifically for the ETA, amounts spent as reimbursement to ETA providers for account setup costs totaled approximately \$98,000 in FY2000 and are projected to be \$155,040 in FY2001. In addition, the Federal Reserve Bank (FRB) of Dallas, in its capacity as fiscal agent, enrolls financial institutions in the ETA Program, has created a database of financial institutions that have been certified as ETA Providers, and manages an Internet web site, an ETA Call Center, and a Voice Response Unit, a toll-free telephone number that can be used to obtain locations of ETA providers by five digit zip code. Costs, including the cost to develop and maintain the database, website, call center and VRU, totaled slightly more than \$2.7 million through May of this year.

Therefore total program costs through May 2001 have been \$24 million.

What have we received from these expenditures? Since FY1995, annual Treasury-disbursed check volume has decreased by more than 140 million checks. Based on the differential between the cost of making a check payment and the cost of making an EFT payment this decrease has resulted in cumulative savings to date from increased electronic payments of nearly \$250 million. In addition to the

savings already received, since these payments continue on into the future, recurring savings will result for the life of the payment stream. Based on current check volume percentages when compared to where we were at the end of FY'95, we estimate recurring, annual federal government savings of approximately \$70 million per year. These savings were estimated on the assumption that the level of electronic payments will remain constant. Obviously, we plan on doing better than that. Additional savings to be realized from the ETA will accrue over time as savings from the conversion to EFT surpass initial ETA start up costs. These costs include \$12.60 paid to financial institutions per account opened as a reimbursement for account setup. Treasury expects to recoup that cost for each account in approximately two and one half years after it is opened, based on a monthly EFT conversion savings per account of slightly more than 41 cents.

Additionally, since check volume has decreased generally, the number of Treasury disbursed forged, altered, and counterfeit checks has decreased by nearly 79,000 since FY 1995. This has resulted in a cumulative \$41 million dollar decrease in potential losses associated with check fraud.

## ***CONCLUSION***

In conclusion, overall EFT99 implementation has been a tremendous success and continues to proceed well. Implementing the program provides us an important opportunity to deliver the high quality of service that our customers deserve, lower the cost of government to American taxpayers, and help Federal payment recipients without accounts take advantage of the benefits of electronic payments.

I appreciate the opportunity to report on the progress of the EFT99 program and I will be pleased to answer any questions the Subcommittee may have.